

A FEASIBILITY STUDY FOR THE ESTABLISHMENT OF A SPECIAL
REVENUE FUND AND AN ENTERPRISE FUND FOR SOME REVENUE
PRODUCING AGENCIES IN THE CITY OF ATLANTA

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ABSTRACT

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A Feasibility Study for the Establishment of Special Revenue
Funds and Enterprise Fund for Some Revenue Producing Agencies
in the City of Atlanta

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The primary purpose of this study is to determine whether it will be feasible and beneficial to establish a special revenue fund and an enterprise fund for some revenue producing agencies and activities in the City of Atlanta.

In order to determine the possibility of establishing these funds, both primary and secondary data were used. The technique utilized in collecting the primary data consisted of interviews of a random sample of twenty-five relevant departmental heads and/or administrators. Furthermore, a questionnaire was distributed to those same administrators in order to ascertain their perceptions with respect to the establishment of a special revenue and an enterprise fund. Likert Scale was constructed to analyze the primary data.

The study revealed that the establishment of a special revenue fund for revenue producing agencies and activities in

the City of Atlanta will not be beneficial due to the following reasons: 1. The possibilities for low priority needs to be overfinanced while high priority needs are underfinanced. 2. The possibility of the build up of money for particular activities while others of equal importance are suffering.

On the other hand, the study shows that an enterprise fund should be created for the Civic Center. Some of the reasons given are as follows: 1. The Civic Center generates enough revenue to be accounted for under an enterprise fund. 2. The future prospect of the Civic Center seems promising if it is run as a business concern.

I. INTRODUCTION

During the past several years, public expenditures for the provision of public services in urban areas have risen rapidly without any interruption. This increase in expenditures may be attributable to the following factors: 1. inflation; 2. delapidation of housing and public facilities; 3. heavy concentration of urban poverty and race problems; 4. increase in population; and 5. growing demand by citizens for new and better services.

The function of a municipal government is to provide for its citizens the public services which are needed to protect and promote their health, safety, morals and welfare. The services include activities such as police protection, fire protection, health programs, recreation, and library facilities. In order to provide these activities, a municipal government must first of all find the needed resources to maintain the level of existing services. But this has become very difficult. This difficulty is partly due to the inflationary spiral which every municipal government is facing today; and partly due to the growing demand by citizens for new and better services. In fact, the efforts to solve the financial problems have become more complicated by two main factors. These factors, according to Arthur Mendonsa are, (1) the sources from which a municipality can obtain funds are limited,

(2) the efforts to obtain funds from the sources which are available are being resisted by those who must supply the money.¹

Faced with the need for more money and handicapped in its effort to obtain the money, a municipal government must find some means or measure in order to make effective and efficient use of money that is already available. Owing to the above, a body of intelligent financial administration of government should be summoned in order to contribute to a good government. A government without a good financial administration will find it impossible to render the services required by its citizens.

Financial administration cannot be carried out effectively without a sound business procedure. This, of course, includes adequate budgeting, accounting, auditing and financial reporting. (These instruments can play a significant part in the conduct of public affairs.) This statement is confirmed by Lloyd Morey and Orval W. Diehl when they stated that public (municipalities) financial ailments and other uncertainties have risen primarily as a result of ineffectiveness accounting, budgeting, auditing and sound financial reporting, and that permanent cures can be brought about only if effective and adequate accounting methods, budgeting systems are adopted.² In

¹Arthur Mendonsa, Simplified Financial Management in Local Government (Georgia: The University of Georgia Center For Continuing Education, 1969), p. 1.

²Lloyd Morey and Orval W. Diehl, Municipal Accounting (New York: John Wiley and Sons, 1942), p. v.

other words, without effective budgeting, accounting, auditing, and financial reporting systems, a municipal government cannot function effectively and therefore may become bankrupt.

The City of Atlanta's accounting system has always used the most modern and recommended accounting practices. However, there may be other ways in which the accounting system can be used more effectively to maximize the impact of current revenue collections. The purpose of this study, therefore, is to ascertain the feasibility of the establishment of special revenue and enterprise funds in the City of Atlanta.

II. THE PROBLEM AND ITS SETTING

Setting

The Department of Budget, Planning and Evaluation was established by the Reorganization Ordinance of 1974 and the City of Atlanta Charter, Section 3-302, 3-601, 3-602 and 3-603, as amended.³

The department is charged with performing the following activities:

1. To prepare and update both short and long term comprehensive development plans, and to secure required neighborhood involvement.
2. To review departmental actions for compliance with established goals and policies.
3. To prepare and administer zoning ordinance, subdivision regulations, and official maps.
4. To comment on annexation petition and zoning amendments.
5. To prepare recommended budget policies and priorities.
6. To review recommendation of the commissioner of finance for conformity with budget policy.
7. To periodically evaluate inter- and intra-departmental operations and functions, and
8. To perform community development and other grant related planning, budgeting and management activities with the appropriate support from operating departments and agencies.⁴

³Department of Finance, Mayor's Recommended Budget, 1979 (City of Atlanta, Georgia), p. 74.

⁴Ibid., p. 74.

In compliance with other mandates, the department has the overall program responsibility for preparing the comprehensive development plan, the execution of the budget, the administration of zoning ordinance, and the preparation of special studies for the mayor.⁵ The Department of Budget, Planning and Evaluation is divided into two bureaus, namely: (1) the Bureau of Budget Policy Evaluation, and (2) the Bureau of Planning.

The Bureau of Budget Policy and Evaluation is responsible for preparing recommended program levels and related ordinance in accordance with revenue expenditure levels for consideration by the mayor and council. Again, it cooperates with the Department of Finance in the establishment of recommended budget levels and provides in-house consulting services for program development and management improvements. Furthermore, the Bureau periodically evaluates and analyzes selected inter- and intra-departmental functions. One such inter- or intra-departmental function it performs is the preparation of other departmental budgets.⁶

The Bureau of Planning is a subdivision of the Department of Budget, Planning and Evaluation. The major functions of this bureau are: (1) to prepare the Comprehensive Development Plan, (2) to administer the City's zoning and subdivision ordinance, (3) to implement the neighborhood planning process, (4) to prepare special studies and reports for the mayor and

⁵Ibid., p. 74.

⁶Ibid.

City Council, and (5) to comment on and review certain federally-funded projects.⁷

The writer served as an intern in the Bureau of Budget, Policy, and Evaluation as a research analyst under the supervision of Ms. Carol Toner, an urban policy analyst III. During the course of the internship, the writer was assigned the duty of examining the various funds in the City of Atlanta. It was during this examination that the writer became aware that revenue activities such as parks, cultural affairs, Civic Center, libraries and recreation might better be accounted for partly under "Special Revenue Fund," and "Enterprise Fund" rather than exclusively under the "General Fund."

Statement of the Problem

Recently, some local governments such as Marin County, California; Alamogordo City, New Mexico; and Wheeling City, West Virginia have established "Special Revenue Fund" and "Enterprise Fund." A special revenue fund is created to earmark revenues for specific departmental expenditures rather than to have agencies' generated dollars revert to the general fund. The type of governmental units (i.e., parks and recreation, libraries, schools, hospitals, etc.) for which special revenue fund has been used is usually of certain degree of importance and magnitude.

A special revenue fund normally accounts for revenue designated to be expended for a certain purpose. The purpose

⁷
Ibid.

of establishing this fund is to make sure that the revenue a department or a city earmarked for an activity is used for the aim intended. A special revenue fund helps management to identify the money which is generated by every department for which such fund is created. This fund also makes it easier for management to keep track of the amount of revenue generated by specific activities in the city government, and to see how management decisions positively or negatively impact upon their revenues. Furthermore, it allows budget analysts to determine the departments with high potentials.

On the other hand, an enterprise fund is created for departments that are self-sustaining or receive very little or no subsidies from a general fund. This fund helps administrators to determine whether the department for which it is created is operating at a profit or loss. The creation of this fund also allows administrators the flexibility of making sound and reasonable decisions.

This is not the case with the City of Atlanta for certain activities. Presently, the City of Atlanta operates thirty-one separate funds. The largest and the most important of these funds is the General Fund. This fund (General Fund) accounts for all revenues that are not properly accounted for in another fund.

Under certain titles and account numbers, the General Fund is set up to account for every (excluding airport and water and sewerage) revenue generated by revenue producing

activities.⁸ For example, fines from traffic violations, library, parking violation, trespassing in city parks, etc. are all accounted for under the title fines. This accounting procedure makes it difficult for the central accounting office to identify the revenue(s) generated by a specific bureau and/or department such as recreation, parks, library, city courts, and cultural affairs. Furthermore, several departments have found it difficult to obtain the funds (to cover some of their operating expenses) which they have generated during the course of the year. For instance, not too long ago, a memorandum was sent by Mrs. E. Yates (Director of Atlanta Public Library) to Mr. M. Finely (Councilman) requesting that a portion of the library funds should be applied to their (library) general operating account (see Appendix A).

One could assume from the above that several governmental units such as the library, Civic Center, recreational facilities, etc. are large enough to create special revenue funds or enterprise funds as the case may be for revenue producing activities. However, before such assumption is made, it is imperative to conduct a feasibility study to determine if the creation of special revenue funds and enterprise funds for revenue producing activities or agencies would be beneficial to the City of Atlanta. In effect, this study is undertaken to determine if it is in the best interest of the City of Atlanta to establish a special revenue fund or an enterprise

⁸ See pages 31-37 for a detailed discussion of general fund.

fund as the case may be for revenue producing activities.

Methodology

In order to gather information pertaining to the feasibility study both primary and secondary data were used.

The technique employed in collecting the primary data was to conduct interviews of a random sample of twenty-five relevant departmental heads and/or administrators. Additionally, a questionnaire was developed to ascertain the perception of those same administrators with respect to the utility of the establishment of such funds in the City of Atlanta (see Appendix B). Likert Scale was then constructed to analyze the result.

The term Likert Scale is associated with a question format that is frequently used in contemporary survey questionnaires. Ideally, the respondent is presented with a statement in the questionnaire and is asked to indicate whether he "strongly agrees," "agrees," "disagrees," "strongly disagrees," or is "undecided." The modification of the wording of the response categories (e.g., "approve") could also be used.

The most important feature of the method is the unambiguous originality of the response categories. If respondents were permitted to volunteer or select answers such as "sort of agree," "pretty much agree," "really agree," and so forth, it would be impossible to determine the relative strength of agreement intended by the various respondents. This technique (Likert) easily resolved this dilemma.

Secondary data were gathered from numerous sources

(i.e., variety of books, journals, and documents). These sources were used to gather information regarding the reasons for the establishment of special revenue and/or enterprise funds. Furthermore, the study analyzed the advantages and disadvantages of these funds.

The rationale for using the above two approaches is to enhance the reliability and effectiveness of the research study.

III. THEORETICAL BACKGROUND ON THE SUBJECT MATTER

In many aspects of life, one is associated with political, social and economic organizations, such as business, schools, political parties, states, cities, and professional associations. Many of these organizations are complex and pose critical problems on which decisions must be made. In order for these associations or organizations to be accountable and useful to society, each must have the ability to measure and report its accomplishment and to renew and grow such that the individual organization and society are best served. In order to achieve these difficult goals, organizations need some information about the resources they control and how these resources are generated and used. Accounting information is designed to meet these needs. It is appropriate here to ask: what is accounting? Several writers have offered various definitions.

Rollin Niswonger and Philip Fess define governmental accounting as the process of recording and reporting financial transaction at different levels of government (i.e., states, counties, and incorporated municipalities). It seeks to provide useful accounting information, and with regard to the business aspect of public administration, governmental accounting helps to control the expenditures of public funds

in accordance with statutory requirements.⁹ Since this paper is concerned with the public sector, and specifically at the city level, municipal accounting, according to Mikesell:

... is the process of recording, collecting, administration, and disbursement of resources by any unit of government and to the making of reports concerning any or all of these parts.¹⁰

In order to understand municipal accounting, some knowledge of the financial organization of a municipality is required; i.e., one must understand the manner in which a city raises money and the organization it sets up to expend this money. Broadly speaking, municipal government here refers to any governmental body which is subordinate to a state. However, for the purpose of this paper unless otherwise stated, "municipality" will be used in its narrow sense as being synonymous with "city."

Since a city is a creature of the state it has only those powers delegated to it by the state. The delegation of these powers could come from either the state constitution, the statutes, or both. Statutes in most cases provide for the adoption by the residents of a city charter, outlining in detail the powers of the municipality and providing for its organizational advancement. The city charter is the basic law of the city.

The primary purpose of a municipality is to provide

⁹ Rollin Niswonger and Philip E. Fess, Accounting Principles (Cincinnati: South-Western Publishing Co., 1972), p. 6.

¹⁰ R. M. Mikesell, Governmental Accounting (Illinois: Richard D. Irwin, 1951), p. 1.

services to its residents, in an effective and efficient manner. In order to facilitate this, the city management must develop some kind of control. This implies that the grouping of related activities should be enforced. This interpretation is confirmed by Charles Langer when he states that "the principle of control is therefore the grouping of related activities into classes."¹¹ Most municipalities are organizationally structured into departments (i.e., each department is given control over a function). The various activities that are involved in the performance of the function are also assigned to distinct departmental subdivisions. For example, the classification of funds is assigned to the department of finance.

The question one poses at this point is: What is a fund? To the lay man, a fund is merely considered as money. Technically, this concept is not wrong; however, several scholars and/or scholarly organizations have defined the term "fund" in several intellectual or scholarly ways to suit their purposes. For instance, Mendonsa defines a fund as:

... a sum of money or other valuable resources which has been set aside for specific purposes and which is accounted for separately from other monies and valuable resources of a municipality.¹²

Similarly, Langer defines a fund as:

¹¹Charles H. Langer, Accounting Principles and Procedure, Municipal Accounting Lectures (Chicago: Walton Publishing Co., 1950), p. M2-437.

¹²Arthur A. Mendonsa, Simplified Financial Management in Local Government (Georgia: The University of Georgia Center for Continuing Education, 1969), p. 25.

... a sum of money or other resources set aside for the purpose of being held or expended in accordance with statutory, charter, ordinance or general administrative provisions.¹³

However, according to the Municipal Finance Officers Association (MFOA):

... a fund is an independent fiscal and accounting entity with a self-balancing set of accounts, recording cash, and other resources together with related liabilities, obligations, reserves and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives, or limitations.¹⁴

Elsewhere, under the section dealing with funds, its purposes and uses, Mendonsa contends that funds are used in municipal finance administration for control purposes and goes on to state that "funds are created to help ensure that money or other resources set aside for specific purposes will be used only for the purpose intended."¹⁵ It appears that the above viewpoint is much in the nature of categorical grants in fiscal federalism, where grants are generally highly specific in purpose and permit extremely little discretionary action by the recipient(s).

However, as a guide to the creation of a fund,

¹³ Charles H. Langer, Accounting Principles and Procedure, Municipal Accounting Lectures (Chicago: Walton Publishing Co., 1950), p. M2-437.

¹⁴ Municipal Finance Officers Association, Governmental Accounting, Auditing, and Financial Reporting (Michigan: Cushing-Malloy, 1968), pp. 6-7.

¹⁵ Arthur A. Mendonsa, Simplified Financial Management in Local Government (Georgia: The University of Georgia Center for Continuing Education, 1969), p. 25.

Mendonsa¹⁶ puts forward four main rules, namely:

1. A fund should be created when one is required by law or by a contractual agreement.

Explicitly, this means that a law could be set up to create a fund(s) in order to administer the monies that a municipality holds in trust.

2. A fund should be created to receive and disburse the money from a bond issue even though such a fund may not be required by law.

The rationale in this rule is that bonds are always authorized for certain purposes. Under such circumstances, the expenditure of the money obtained from a bond issued for unauthorized purposes is illegal. In order to avoid this illegality, the money should be placed in a separate fund. This measure could enable the management to identify the specific intention of such fund and to control the expenditure of the money.

3. A fund should be created for utility operated by a town.

This rule implies that by operating a utility separately, the town or the city management can adequately examine or determine the actual cost of operating the utility without a tremendous auditing procedure. In operating each utility separately, it could reduce the interest rates paid for bond issue. Furthermore, from a decisional viewpoint, a segment margin could be useful in those decisions relating to long run needs and performance.

4. A fund should be created if a town wishes to change departments within the town

¹⁶Ibid., pp. 26-27.

organization for central services received from other departments within the town government.

Concisely, this rule is designed to provide the basis for a uniform approach to the problem of determining costs, to promote efficiency, and to better the relationship between the various units of the municipality. The purpose for the establishment of separate funds, according to Morey and Hackett:

... is to make certain that revenues or other receipts restricted as to the manner or object of use, are handled and applied only in accordance with those restrictions.¹⁷

On the other hand, Mikesell defines funds in two main categories: (1) that of resources, and (2) that of an accounting entity.¹⁸ With regard to the accounting entity, he states that as a control factor, a separate fund is of paramount importance, because the legal authority creating the fund can accomplish a special purpose.

The Municipal Finance Officers Association has recommended eight types of funds that can be used by a city. The association suggests that the use of these funds would promote a more effective and efficient accounting system. These funds are: 1. General Fund, 2. Special Revenue Fund, 3. Debt Service Fund, 4. Capital Projects Funds, 5. Enterprise Fund, 6. Trust and Agency Funds, 7. Intergovernmental Fund, 8. Special Assessment Fund. Among the above named categories,

¹⁷Lloyd Morey and Robert P. Hackett, Fundamentals of Governmental Accounting (New York: John Wiley and Sons, 1942).

¹⁸R. M. Mikesell, Governmental Accounting (Illinois: Richard D. Irwin, 1951), p. 4.

this study will only discuss three kinds: (a) General Fund, (b) Special Revenue Funds, and (c) Enterprise Funds. These three funds have been selected for discussion because they relate most closely to the study.

A. General Fund. This is a fund which accounts for all financial transactions that are not properly accounted for in another fund. Snyder points out that the general fund:

... is the primary general purpose fund in local government; it exists to finance the functions of general administration and the provision of general public services.¹⁹

In other words, any activity that is not included in another fund is part of the general fund. It is the largest and the most active fund in all levels of government.

In addition, Mikesell and Hay contend that a general fund is a legal entity that enjoys a continuous existence, yet its actual functioning depends upon regular periodic revival or renewal through legislative authorization.²⁰ They also point out that "operation within the limitations of the periodic budget is one legal provision of great importance to the general fund."²¹ Furthermore, in order to make the budget compatible with the limitations, general funds, whether large or small in size, should be of two sets of accounts: (1) budgetary, and (2) proprietary. Budgetary accounts, according

¹⁹James C. Snyder, Fiscal Management and Planning in Local Government (Massachusetts: D. C. Heath and Co., 1977), p. 184.

²⁰R. M. Mikesell and Leon E. Hay, Governmental Accounting, 4th ed. (Illinois: Richard D. Irwin, 1969), p. 43.

²¹Ibid., p. 43.

to Mikesell and Hay, serve two purposes: (a) to record the legislative body's authorization to spend for specified purposes, and (b) to estimate revenue derived from various sources. However, these accounts could be combined in one ledger.

Again, in another perspective, Morey and Hackett state that a general fund is nothing more than revenue from all general tax levies and all miscellaneous revenue not designated for specific use by statute or charter.²² One can understand from this concept that revenues whose use are not specified by law or contractual agreement can be deposited into the general fund. The resources, however, can be expended for any purpose for which the government to whom it belongs sees fit. This point of view is similar to the National Committee on Municipal Accounting (NCMA) which states that:

... city may be called upon to finance part of the cost of constructing special assessment improvements which cost it may finance out of the general fund.²³

Most city governments are required by law to operate their general activities in strict accordance with the adopted budget. At this point, it is important to note that a general fund has a significant relationship to the budget. However, before discussing this relationship, it is appropriate here to give a brief description of a budget.

²²Lloyd Morey and Robert P. Hackett, Fundamentals of Governmental Accounting (New York: John Wiley and Sons, 1942), p. 64.

²³National Committee on Municipal Accounting, Municipal Accounting Statement (Chicago: 1959), p. 121.

A budget is simply a detailed plan prepared annually to show how resources will be acquired and put into use over some specific time period. It represents a plan for the future expressed in monetary terms. Some of the values of budgeting are: (1) it required administrators to bring planning to the forefront of their minds, (2) it provides them with a vehicle for communicating those plans in an orderly way throughout an entire period, (3) it helps managers to think ahead by requiring them to formalize their planning efforts, (4) it provides administrators with definite goals and objectives which serve as benchmarks for evaluating subsequent performance, (5) it uncovers potential bottlenecks before they occur, and (6) it helps officials to coordinate the activities of the entire organization by intergrating the plans and objectives of the various parts. In general, the budget ensures that the plans and objectives of the parts are consistent with the broad goals of the entire organization or the governmental system.

As indicated earlier, there is a relationship between the budget and the general fund. This relationship stems from the fact that the budget appropriated for the general operation of a municipality or a town is deposited into the general fund. It is from this general fund that all administrative expenses and/or all supplemental expenses are expended. This is confirmed by the Municipal Finance Officers Association which revealed that "the annual budget of a city has an important relationship

to actual financial operations of the general fund."²⁴

Instead of having every agency dollar revert to the general fund, very few agencies have established special revenue fund that earmark revenues for department expenditures. In order to understand a special revenue fund, this subsection will examine the subject matter.

Special Revenue Fund.-Snyder, in Fiscal Management and Planning in Local Government, defines a special revenue fund as one which is "utilized to account for revenues and expenditures associated with a special source of revenue or an earmarked tax."²⁵ In other words, such a fund is used to earmark revenues and/or expenditure for a particular purpose intended by the body creating the fund. For example, certain taxes or portion of taxes can be restricted to particular uses and therefore will be accounted for in a distinct fund. On the other hand, Morey and Diehl define this fund as one which is "used to finance particular activities from the receipts of specific taxes or other revenues."²⁶ Again, they stated that "such a fund is usually created through statutory or charter provisions to provide certain activities with definite and

²⁴Municipal Finance Officers Association, Governmental Accounting, Auditing, and Financial Reporting (Michigan: Cushing-Malloy, 1968), p. 8.

²⁵James C. Snyder, Fiscal Management and Planning in Local Government (Massachusetts: D. C. Heath and Company, 1977), p. 184.

²⁶Lloyd Morey and Orval Diehl, Municipal Accounting (New York: John Wiley and Sons, 1942), p. 40.

continuing revenues."²⁷

Similarly, Morey and Hackett contend that:

Special revenue fund is necessary whenever revenues are collected which are specified by statute or charter to be expended only for particular purposes.²⁸

However, they (Morey and Hackett) maintain that the enactment of mandatory provisions for such a fund on the whole, is not to be commended. The results of such procedures will obviously build up the funds for particular activities while others of equally important ones may be suffering because of lack of resources. Morey and Hackett suggest that as a principle, it is desirable for every revenue to be undesignated as to the use, and should be considered on its merit in relation to the available resources. They went further to state that if it becomes mandatory, special revenue fund should be established so that:

... each must be accounted for separately, and if (sic) similar in nature and purpose, the accounts of the group may be combined into a single statement. Under no circumstances, however, should the assets belonging to one fund be used to meet the expenditures of another fund unless loans from one fund to the other are duly authorized and actually recorded in the accounts.²⁹

In the same manner, Mendonsa states that "designating money for specific purposes is not recommended."³⁰ This

²⁷Ibid.

²⁸Lloyd Morey and Robert P. Hackett, Fundamentals of Governmental Accounting (New York: John Wiley and Sons, 1942), p.

²⁹Ibid., p.

³⁰Arthur A. Mendonsa, Simplified Financial Management in Local Government (Georgia: The University of Georgia Center for Continuing Education, 1969), p. 27.

implies that a special revenue fund will create inflexibility in the use of revenue which a city or town generates. Mendonsa then concludes that "one effect a designated revenue can have is that low priority needs may be over-financed while high priority needs be underfinanced."³¹

According to the MFOA, special revenue fund is used to account for revenues which are derived from specific taxes or other earmarked revenue sources. The association contends that such a fund is usually required by statute, charter provision, or local ordinance to finance particular functions or activities of a government, i.e., parks, schools, museums, highway construction, street maintenance, law enforcement, licensing.³²

This fund, according to the Association, could have a definite, limited life, or remain in effect until it is discontinued or revised by appropriate legislative action. Again, the Association states that special revenue fund may be used for a very limited purpose, such as the maintenance of some historic landmark or it may be used to finance the entire functions of a government. In other cases, special revenue fund may be partly created to account for particular activity within a single function, while the other half of the activity is under the umbrella of the general fund.

The Association further maintains that a special

³¹Ibid.,

³²Municipal Finance Officers Association, Governmental Accounting, Auditing and Financial Reporting (Michigan: Cushing-Malloy, 1968), p. 28.

revenue fund:

... is a matter of financial policy rather than accounting practice, the mandatory creation of many revenue fund is opposed by MFOA because it hinders sound financial planning, unduly complicates the accounting system, and causes confusion in financial reporting.³³

The Association notes that the flow of revenue into a special revenue fund may be derived from the sources as the governmental unit—general fund. For example, the special revenue fund could obtain revenue from property tax levy, fees or charges for current services or from grants and shared taxes from other governments. On the other hand, it could receive its entire revenue from a single tax, and the proceeds may be expended only for a particular function or activity.

The Municipal Finance Officers Association points out that the amount and the nature of the sources of the revenue which finance a particular facility or program has a controlling influence on whether such a program should be accounted for as a special revenue fund or as an enterprise fund. The determining characteristic of a special revenue fund from enterprise funds, according to MFOA is that:

Most of the revenue involved in the operation ... comes from tax and non-tax sources not directly related to services rendered rather than from direct charges to users of the services.³⁴

Contrary to the above, if a facility or program is financed entirely or predominantly by charges to user, the financial

³³Ibid.

³⁴Ibid.

transactions involved should be accounted for in an enterprise fund. For example, an off-street parking facility which is provided by a city and supported entirely by user charges would be accounted for as an enterprise fund.

Enterprise Fund.-This fund, according to MFOA,

Is established to account for the financing of self-supported activities of governmental units and which renders services on a user charges basis to the general public.³⁵

In other words, the creation of this fund is to account for activities that are self-sustained from the revenues generated by citizens who utilized the services it performed. Mikesell and Hay define this fund as:

... one which specializes in providing certain commercial type services to the public generally and incidentally, to other governmental departments or divisions.³⁶

Services involved in this type of fund include: (1) electricity, (2) water, (3) gas, (4) transportation services, (5) harbor facilities, (6) airport services or facilities, (7) housing projects, etc.

Mikesell and Hay also give six outstanding features of enterprise funds. These features are as follows:

- (1) They are principally, if not entirely, self-supporting

This means, such funds receive little or no assistance from a city general fund. However, there are possibilities that initial financing of an enterprise fund can be contributed in

³⁵Ibid., p. 50

³⁶R. M. Mikesell and Leon E. Hay, Governmental Accounting, 4th ed. (Illinois: Richard D. Irwin, 1969), p. 313.

part or in total by other funds. In most instances, this assistance is on a long-term loan basis. In other cases, an enterprise fund is not only self-supporting, but sometimes contributes to other governmental departments that are in financial need.

- (2) Revenue and expense account statements are of vital importance in enterprise fund operation, not only for their value in measuring results of operations but also for managerial use in promoting efficient service at low cost.

This signifies that the operation of an enterprise fund is very important in that management must show whether they are operated at a profit or at a loss, similar to comparative private enterprise.

- (3) Assets described as fixed assets of mercantile and manufacturing concerns are usually found among enterprise fund.

It seems clear from the above statement that the balance sheet of an enterprise fund should show the equipment owned by an establishment. This helps management and citizens to know the true net worth of the enterprise.

- (4) Fixed or long-term liabilities are included in enterprise account and show in their balance sheet

This indicates that an enterprise fund should show the amount of payable accounts it has recorded in its balance sheet. It also helps management and the general public to compare the liabilities versus the assets in order to know the effectiveness or the ineffectiveness of an enterprise.

- (5) Depreciation of plant and equipment is an important item of enterprise fund cost.

This statement helps one to know the true value of the fixed assets owned by the enterprise. It is common in business practices for assets to depreciate over a time period. This depreciable amount should be deducted from the original cost of the assets to get the true value at the end of the year.

- (6) Although still required by law in some jurisdictions, the use of budgetary accounts is not recommended for the control of enterprise operations. It is believed that the commercial type of revenues and expenses accounts used in enterprise accounting provide control that is more effective for such activities than would be obtained from the conventional budgetary control accounts.³⁷

Another important point noted by the MFOA is that,

If a substantial amount of the revenues used to finance an activity or series of related activities in a single fund is derived from user charges, the fund can be appropriately classified and accounted for as an enterprise fund.³⁸

(This is similar to what had been discussed in the preceding section.) On the other hand, if only a small portion of the fund's total revenue comes from earnings, the fund should properly be accounted for as a special revenue fund.

In general, an enterprise fund is a governmental accounting tool which is developed to record transactions much in the same way as a private enterprise does. It allows one to track down certain activities that are usually self-supporting through a separate fund that records all transactions. All revenues and expenses, as well as all assets and

³⁷Ibid., p. 315.

³⁸Municipal Finance Officers Association, Governmental Accounting, Auditing, and Financial Reporting (Michigan: Cushing-Malloy, 1968), p. 50.

current liabilities, are accounted by this fund.

A discussion on an enterprise fund invariably is a discussion on profit. However, Spears, on the issue of profit in the public sector, made the following comment:

... governmental bodies are not in business to make profit. In fact, it is preferable to avoid usage of such terminology... and recognize that the result more properly represents an excess of revenue over expenditures or vice versa, as the case may be.³⁹

³⁹ Charles Spears, Enterprise Facilities and Enterprise Funds (North Carolina: North Carolina State University Revenue Sources Management School, 1975), p. 152.

IV. LEGAL BASIS FOR THE CREATION OF FUNDS IN THE CITY OF ATLANTA

The accounting system in the City of Atlanta is organized and operated on a fund basis. However, Section 7-1003 of the Atlanta City Charter, succinctly states that "the finance department is responsible for maintaining all general accounts of the city government."⁴⁰ This enables the finance department to prescribe, to install, and to implement accounting system for the city government.

On the other hand, Section 7-1012 of the City Charter authorizes the Commissioner of Finance to administer the financial affairs of the city. This is a responsibility which includes the following:

1. To compile expenses and capital estimates for the budget, for the finance committee, and for the council.
2. To supervise the disbursement of all monies within the budget appropriation of the city.
3. To design, implement, and to maintain the general accounting and management system for the city and its officers, departments, and agencies.
4. To collect all taxes, special assessment, license fees and other revenues not otherwise provided by law.
5. To guard all public funds belonging to the

⁴⁰ The Atlanta City Charter.

city, all investment, and invested funds of the city, or held by the city in a fiduciary capacity.

Under Section 7-1019 of the Charter, the Commissioner of Finance is given the responsibility to open and to keep all general books for the city. The commissioner is expected to keep the city's financial record properly, and to show the financial transactions which include the accounting of all receipts and disbursement of money.

Section 7-1020 of the City Charter confirmed Section 7-1019 and states that the Commissioner of Finance should be given the authority to institute an accounting system in every department of the city government. This section (i.e., Section 7-1020 of the City Charter) further states that any accounting system implemented or created, must disclose at any time the exact status of the revenue from the department, if any, and the exact amount appropriated for the maintenance and support of such department, and the amount expended and unexpended balances.

The above mandate should not lead one to believe that the Commissioner of Finance can create any fund without the city council's approval. In other words, it takes legislative approval for the creation of funds. However, this is not the case with the creation of special revenue accounts. In the creation of special revenue accounts, there is no legislative approval. The reason one could give for this dichotomy between the two revenues, is that, in the case of special revenue funds or funds in general, when a fund is established, it adds a new

set of balancing accounts. On the other hand, when a special revenue account is created, it becomes a part of the general fund, except that certain revenues are designated for particular purposes.

With regard to an enterprise fund, as in other funds, legislative approval is mandatory. The legislative body must see the need and benefit for an enterprise fund for a particular activity before it is implemented. In other words, the enterprise in question must prove from its past performance that it can sustain itself from the revenue it generates or receives, and if necessary, it should receive very little subsidy from the city.

It is clear from the above statements that funds are only created by the legislative body of the city. This is quite contrary to special revenue accounts, which are created by the Commissioner of Finance with the approval of the mayor.

V. PURPOSE AND FUNCTION OF THE CITY'S VARIOUS FUNDS

As is the case with most municipalities, the City of Atlanta utilizes fund accounting to account for the diverse nature of its activities. As stated earlier in this study, a fund is an independent, fiscal, and accounting entity with a self-balancing set of accounts, recording cash, and other resources together with related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities~~or~~ or attaining certain objectives in accordance with special regulations, restrictions, or limitations.⁴¹ It was mentioned on page 7 that the City of Atlanta operates thirty-one different funds, but technically, the city has five working funds. They are: 1. General Fund, 2. Enterprise Funds (i.e., Airport Revenue Fund and Water and Sewerage Revenue Fund, 3. Revolving Funds, 4. Capital Improvement Funds, and 5. Debt Retirement Funds.

1. General Fund.--The General Fund is the largest and most important of the city's operating funds. This was created by ordinance to account for the general operations of the City of Atlanta. The General Fund finances expenditures made for most of the essential city services such as police,

⁴¹
Op. Cit., p. 13.

fire protection, street cleaning, waste removal, operation of parks and recreational facilities, etc. That is, any activity for which resources are not provided for in some special fund, is financed out of the General Fund.

The General Fund receives a greater variety of revenues than any other fund in the City of Atlanta. In fact, revenue generated by all revenue producing activities (excluding airport, water and sewer departments) are deposited in the General Fund. Because of the vast variety of functions it supports (e.g., parks and recreation, library, Atlanta Public Schools, Civic Center, cultural affairs, police, city correctional agencies, etc.), it must receive revenues from a variety of sources. The major sources of revenues are: 1. property taxes, 2. other taxes (i.e., tax on public utilities, tax on life insurance premiums, tax on alcoholic beverages, etc.), 3. licenses and permits, 4. charges for current services, 5. fines and penalties, 6. revenue from use of money and property, and 7. sales recoveries and grants. Explicitly table 1 clearly demonstrates the sources where General Fund received its revenue for 1979 and its expected revenue for 1980.

It is important at this point to note that revenue generated by most of the city revenue producing activities are deposited in the General Fund. However, expenditures for most of the activities of the city are funded from this fund. Table 2 shows the expenditures in 1979 and the appropriations for 1980.

Also, according to table 2, the General Budget for the

TABLE 1
GENERAL FUND BUDGET RECEIPTS
AND ANTICIPATIONS

	1979 Actual	% of Total	1980 Expected	% of Total
Property Taxes				
Tangible property tax	\$40,329,805		\$39,952,000	
Intangible property tax	2,442,728		2,198,000	
Interest on taxes	332,059		300,000	
	<u>43,104,592</u>	<u>35.3</u>	<u>42,450,000</u>	<u>30.0</u>
Other Taxes:				
Tax on public utilities	12,032,182		11,911,000	
Tax on life insurance premiums	4,467,641		7,882,000	
Tax on alcoholic beverages	9,284,667		9,728,000	
Hotel-motel gross receipts tax	3,233,931		3,201,000	
Alcoholic beverages by-the-drink tax	1,562,495		1,546,000	
	<u>30,580,916</u>	<u>25.2</u>	<u>34,268,000</u>	<u>24.2</u>
Licenses and Permits:				
General business licenses	10,894,688		13,870,400	
Construction permits	1,224,156		999,000	
Other	417,517		379,000	
	<u>12,536,361</u>	<u>10.3</u>	<u>15,248,400</u>	<u>10.8</u>
Charges for Current Services:				
Services to other agencies	4,312,169		3,356,337	
Sanitary service charges	7,720,457		10,854,900	
Recreational fees	1,088,113		987,000	
Other	1,117,274		597,763	
	<u>14,238,013</u>	<u>11.7</u>	<u>15,796,000</u>	<u>11.1</u>
Fines and Penalties:				
Municipal court fines	2,788,095		2,640,000	
Forfeitures	347,022		259,400	
Other	33,432		25,200	
	<u>3,168,549</u>	<u>2.6</u>	<u>2,924,600</u>	<u>2.1</u>

TABLE 1 (continued)

	1979 Actual	% of Total	1980 Expected	% of Total
Revenue from use of Money and Property	\$ 5,084,486		\$ 759,000	0.5
Sales, Recoveries, and Grants:				
Sale of printed material	103,737		71,000	
Sale of processed surplus items	568,431		495,000	
Recoveries	9,410,293		6,393,000	
Grants	<u>3,139,428</u>		<u>2,886,000</u>	
	<u>13,221,889</u>	<u>10.8</u>	<u>9,845,000</u>	<u>6.9</u>
TOTAL RECEIPTS	<u>121,934,806</u>	<u>100.0</u>	<u>121,291,000</u>	
Cash Available From 1979			<u>20,401,005</u>	<u>14.4</u>
			<u>141,692,005</u>	<u>100.0</u>

Source: Department of Finance, General Budget 1980 (City of Atlanta, Georgia), p. v.

City of Atlanta 1980 shows that there was an increase of 17.5 percent in 1980 appropriation over that of 1979. This increase could be due to an increase in salary, fringe benefits, and other expenses.

There are some problems associated with the General Fund. Some of these problems are as follows: 1. administrators cannot easily identify the revenues generated by specific departments (e.g., parks and recreation, library, Civic Center, etc.) from the central accounting office. The reason indicated

TABLE 2
GENERAL FUND BUDGET EXPENDITURES
AND APPROPRIATIONS

Expenditures by Departments	1979 Actual	1980 Budget	Percent Change
City Council	700,200	696,450	-4.4
Mayor	2,947,864	3,238,433	+9.8
Criminal Justice Coordinating Council	43,486	0	N/A
Judicial Agency	1,735,826	2,083,659	+20.0
Budget and Planning	820,421	790,368	-3.7
Community Relations Commissions	69,534	26,637	-61.7
Contingent and Grants	27,693,415	34,742,780	+25.5
Finance	2,009,623	2,597,567	+23.7
Community and Human Development	2,737,565	3,246,930	+18.6
Environments and Streets	30,014,037	31,464,567	+4.8
Cultural Affairs	2,243,171	2,159,473	-3.7
Parks and Recreation	10,642,610	11,068,066	+4.0
Atlanta Public Libraries	4,376,499	5,369,377	+22.7
Public Safety	33,232,908	42,517,398	+22.9
Tax Assessors	1,220,609	1,717,300	+40.7
	<u>120,577,768</u>	<u>141,692,005</u>	<u>+17.5</u>

Source: Department of Finance, General Budget 1980 (City of Atlanta, Georgia), p. viii.

earlier is due to the fact that all revenue generated by revenue producing activities are deposited into a common account without a careful arrangement of department by department deposit. 2. A General Fund makes it difficult to compare segment generated revenue with depreciation in assets of the segment. 3. Utilization of the fund makes it difficult to calculate how management decision positively or negatively impacts upon their generated revenue. 4. The General Fund makes it difficult for section managers to get money when the said segment has expended their quarterly or yearly budget appropriation. With these problems associated with the General Fund, an alternative or supplement approach could be implemented if the City of Atlanta should operate effectively and efficiently.

On the other hand, the General Fund is the most important and possibly the most effective and efficient financial tool for the City of Atlanta.

The flexibility of the use of money from the General Fund makes it possible for administrators to finance activities in desperate need of help where there could be no other alternative. Unlike a special revenue fund, the General Fund also prevents the building up of funds for particular activities or agency while others of equal importance are suffering. Furthermore, the General Fund gives the financial directors or administrators some control and knowledge as to where the city money is directed and mostly applied. The pumping of money into one pot (the General Fund) helps in the planning process and

decreases the complication that might otherwise arise in accounting reporting.

Comparing the advantages and disadvantages of the General Fund, this study reveals that the advantages tend to outweigh the disadvantages from a financial and accounting standpoint.

Enterprise Fund.-Enterprise Fund can be defined here as a fund which is established to account for the financing of self-supported activities of the City of Atlanta, that provide services on a user charges basis to the general public.

Presently, the City of Atlanta operates two enterprise funds, namely: 1. Airport Revenue Fund, and 2. Water and Sewerage Revenue Fund. It is expected that by 1981 a third enterprise fund will be created for Cyclorama under the Department of Parks and Recreation.⁴²

The Airport Revenue Fund (Enterprise Fund) was created by ordinance and adopted on November 30, 1955.⁴³ It was established to be self-supporting. The fund receives and disburses all airport revenues. These revenues, primarily consist of the following: 1. landing fees, 2. rental of airport property, and 3. concession income. The ordinance authorized by the city council for this fund, states that:

... the Airport Revenue Fund receipts should be used to pay the reasonable and necessary cost of operating, maintaining, and repairing the airport. Any surplus of the revenue accumulated by this fund are first to

⁴²Interview with Mrs. Elizabeth Bennett, Department of Finance, City of Atlanta, Georgia, July 1980.

⁴³Department of Finance, General Budget (Atlanta City Hall, 1979), p. viii.

(sic) pay for debt retirements and then for improvements of the airport facilities.⁴⁴

The Airport Revenue Fund operates in the same nature as a private enterprise accounting system (e.g., General Motors). This fund acknowledges the preparation of an income statement showing the net profit or the net loss for the accounting period. It also accepts a balance sheet showing its equity. That is, all assets and liabilities are kept separately in this fund. This enables management to see the true net worth of the establishment.

In 1979, the total revenue which was generated by the airport amounted to \$40.3 million. The following shows the breakdown of the airport revenue for 1979:

Rental and Concessions	= \$25.3 million
Landing Fees	= 14.0 million
Other Income	= 1.0 million

It is expected that by the end of 1980, the revenue from the airport would amount to \$46.3 million.⁴⁵

Contrary to the revenue generated by the airport, the total expenditures in 1979 were \$31.9 million. These expenditures are expended as follows:

Personal services	= \$ 5.7 million
Other Services and Charges	= 1.3 million
Contractual Services	= 2.1 million
Materials and Supplies	= 3.0 million

⁴⁴Ibid., p. viii.

⁴⁵Ibid.

Fixed Charges	=	.4 million
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Debt Servcies	=	19.4 million
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According to the 1980 "General Budget" for the City of Atlanta, by the end of the year (1980), the total expected expenditures for the airport would amount to \$46.3 million.⁴⁶ This increase, as in the case of the General Fund, could possibly be due to increase in salary, equipment, construction of new airport and other minor expenses.

Water and Sewerage Revenue Fund (Enterprise Fund).-

This fund operates in the same manner as the Airport Revenue Fund. The Water and Sewerage Revenue Fund was created by ordinance on January 1, 1966.⁴⁷ It was established to account for the operation of water, sewer and water pollution control activities. All revenue sources applicable to the operations and all expenditures for the operation of water and sewerage facilities are recorded in this fund.

The revenue generated by this fund in 1979 was approximately \$60.7 million. The breakdown of this amount is as follows:

Sales of Water	=	\$34.2 million
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Sewer Services Charges	=	21.2 million
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Other Income	=	5.3 million
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On the other hand, the fund expended the total sum of \$42.5 million in 1979. Again, the breakdown of this amount is as

⁴⁶Ibid.

⁴⁷Ibid., p. ix.

follows:

Personal Services	= \$16.1 million
Charges and Other Services	= 7.9 million
Contractual Services	= 1.8 million
Fixed Charges	= 1.8 million
Debt Services	= 13.5 million ⁴⁸

It is expected that by the end of 1980 the City's total revenue would amount to \$62.8 million and a total expenditure of \$62.8 million.⁴⁹ The increase in expenditure of \$20.3 million in 1980 over 1979 expenditure could be due to bond issues required to finance the construction of some of the city programs, salaries, and other miscellaneous expenses.

If the creation of Enterprise Fund for the airport, water and sewerage emanates from the notion that they generate enough revenue to sustain themselves with little or no subsidy from the city, it appears then that the same notion should be applied to other self-supporting departments and an enterprise fund be created for them.

Revolving Funds.—Revolving Funds are usually set up by the city to account for special types of revenues. This fund is divided into four categories: 1. State Highway Expressway Fund, 2. Working Capital Fund, 3. Trust and Agency Fund, and 4. Special Assessment Fund. Let us briefly consider two of the four sub-categories under revolving fund.

⁴⁸Ibid.

⁴⁹Ibid.

1. State Highway Expressway Fund: This fund is merely carried on the city's financial records to reflect past receipts and expenditures history.

2. Working Capital Fund: It is an internal revolving fund which is supported by services performed by the city to various departments and bureaus. The revenue for Working Capital Fund is derived from Motor Transport Services, Duplicating Services, Legal Services and Data Processing Services.

Capital Improvement Fund.—Capital Improvement Fund is established to finance the major infrastructure of the city. This fund derives its revenue from property taxes, charges from current services, sales recoveries and grants.

Debt Retirement Fund.—This fund is also known as Sinking Fund. Through this fund, monies are provided annually in order to accumulate sufficient sums to pay principal and interest cost on outstanding bonds and certificates. Debt Retirement Fund obtains its revenue from property taxes, charges from current services, sales recoveries and grants.

Special Revenue Fund.—The City of Atlanta Special Revenue Fund was established in the year 1979 to account for activities which are carried out by the city under four separate intergovernmental grant funds. These funds are set up to carry out specific activities under mandatory provisions to account for the receipts and expenditures of over \$57.2 million received from federal and state supported grant programs.⁵⁰

⁵⁰Department of Finance, Annual Financial Report of the City of Atlanta, Georgia for the Fiscal Year Ended December 31, 1979 (Atlanta City Hall, 1979), p. xiii.

One of the grant funds is nearly defunct. This fund is the Model Neighborhood Fund with unencumbered reserves currently standing at about \$22,000. The other three categories are: 1. The CETA Fund with appropriation of \$18.7 million in 1980. 2. The Community Development Fund with appropriation of \$41.9 million in 1980, and the Intergovernmental Grant Fund with \$6.4 million.⁵¹

In 1979, the City of Atlanta received grants for its Special Revenue Funds from the following sources: 1. Comprehensive Employment and Training Act (CETA Fund), \$124,529,000. 2. Community Development Fund, \$25,751,000, and Intergovernmental Grant Fund, \$15,835,000.⁵² The grants received by the city specify the purpose for which the grant monies are to be used. This statement is confirmed by the Municipal Finance Officers Association's recommendation which states that, special revenue funds are used to account for revenues which are derived from specific taxes or other earmarked revenue sources. The (MFOA) also states that such a fund is usually required by statute, charter provision, or local ordinance to finance particular functions or activities of a government.

It is important at this point to note that the type of Special Revenue Fund which is created for the intergovernmental grants is slightly different from this study. The Special Revenue Fund which is created for the intergovernmental grants

⁵¹Department of Finance, General Budget (Atlanta City Hall, 1979), p. xiii.

⁵²Ibid.

are earmarked monies received from grants for specific purposes. On the other hand, the type of special revenue fund under study would earmark specific revenues received from certain portion of a revenue producing activity (i.e., parks and recreation fees, library duplicating services, cultural affairs entrance charge) to cover certain operating cost.

VI. ACTIVITIES AND REVENUE SOURCES FOR SOME
REVENUE PRODUCING ACTIVITIES

Parks and Recreation.-The purpose of the Department of Parks and Recreation of the City of Atlanta is to provide for its residents and non-residents a comprehensive municipal program of recreation (i.e., playgrounds, playfields, recreation centers, swimming pools, tennis courts, athletic fields and other facilities).

The department is charged with the responsibility of administering and maintaining all parks, park facilities, park's property, city's cemetery and protection of trees on the city's property and right of way. The department is also responsible for the operation and scheduling of the use of the city's zoo, Cyclorama, parks and other special facilities of the city for recreation.

In order to provide and maintain these activities, the department charges entrance fees to the Cyclorama, zoo, golf courses, tennis courts, and swimming pools. It also charges rental fees for the use of Lakewood Fairgrounds, Equestrian Amphitheater, park areas and others. Table 3 shows the revenue received by the Department of Parks and Recreation for 1978, 1979 and expected revenue for 1980.

One could see from table 3 that the receipts from tangible property taxes tend to increase and fall from year to

TABLE 3

1980 BUDGET PARK IMPROVEMENT FUND SUMMARY
OF RECEIPTS AND ANTICIPATIONS

	1978 Receipts	1979 Receipts	1980 Estimated Receipts
Property Taxes			
P110-Tangible property- current year	1,343,898.55	1,399,942.53	1,385,000.00
P210-Tangible property- prior year levy	57,863.08	65,235.88	63,400.00
Total property taxes	1,401,761.63	1,465,178.41	1,448,400.00
U. Revenue from use of money and property			
U700-Premium and interest on securities Bought and sold	149,787.66	115,143.23	N.A.
V. Sales recoveries and grants			
V.520-Refunds ...	120.00	N.A.	N.A.
Total Park Improvement Fund Receipts			1,448,400.00
Cash available, January 1, 1980			3,484.23
Securities held, January 1, 1980			<u>2,073,240.09</u>
Grand total			<u><u>3,525,124.32</u></u>

Source: Department of Finance, General Budget (Atlanta City Hall, 1980).

year. Also, there was a decrease in premium and interest on securities bought and sold for 1979 as compared to 1978. Also, one could conclude that the decrease in 1980 total parks improvement fund receipts could probably be due to underestimation of

receipts. The same interpretation could be given to tangible property taxes-- the prior year levy. However, the table shows a significant increase in the grand total for 1980. This increase is due to cash carried forward from 1979 to 1980 and securities held in 1980.

The summary of expenditures and appropriations can be seen from table 4.

TABLE 4
1980 BUDGET, PARKS AND IMPROVEMENT SUMMARY
OF EXPENDITURE AND APPROPRIATION

	Expenditures		Appropriations
	1978	1979	1980
Current Expenses			
A. Personal services	96,495.82	72,831.10	111,688.00
C. Contractual services	3,454.52	6,277.65	21,110.10
E. Fixed charges	524,969.95	415,307.34	1,877,786.69
Total-Current expenses	<u>624,920.29</u>	<u>494,416.09</u>	<u>2,010,584.79</u>
Capital outlays:			
H. Structural and Improvement	711,633.17	1,053,207.73	1,514,539.53
Total capital outlays	<u>711,633.17</u>	<u>1,053,207.73</u>	<u>1,514,539.53</u>
Grand total	<u><u>1,336,553.46</u></u>	<u><u>1,547,623.82</u></u>	<u><u>3,525,124.32</u></u>

Source: Department of Finance, General Budget (Atlanta City Hall, 1980).

Table 4 shows a decrease in expenditures in 1979 as compared to 1978. However, appropriations for expenditures in 1980 shows a significant increase. This increase could be due to better services, salary increases and miscellaneous increases.

One important point that can be noted from tables 3 and

4 is the fact that there is no breakdown of the revenue sources. In other words, one cannot simply look at the table and specifically say what was generated from the various activities carried out by the department. Because of this accounting method of presentation, the central accounting office cannot technically tell what percentage of the department segmented activities (i.e., tennis, golf, swimming, etc.) generated dollars is returned to them after expenses have been deducted.

This problem of accounting reporting associated with the General Fund is a minor one. It is a minor problem because it could easily be rectified. One way of rectifying this problem is to list each agency and itemize the revenue generated from each activity. For example, under Parks and Recreation, the following sources and amount of revenue generated could be listed (Fines \$20,000, Entrance Fees \$25,000, and Rental Fees \$15,000). Itemizing the revenue generated for each activity will in turn give administrators an accurate knowledge of what percentage was generated from each source and the agency responsible for generating such revenues.

The Department of Cultural Affairs.-The Department of Cultural Affairs is responsible for developing and implementing programs that preserve historic sites, art works, and provides inter-cultural events. One of the major segments of this department is the Atlanta Civic Center.

The Civic Center was created or built to accommodate programs such as concerts, plays, graduation ceremonies, conventions, trade fairs, public shows, banquets, religious meetings,

dances, meeting of different affiliations and others. In order to operate the Civic Center adequately and effeciently, a rental fee is charged to help maintain its operations. Its main sources of revenue are: rent, concessions, telephones, electrical, parking and others.

A recent study conducted by the Commissioner of Cultural Affairs revealed that:

... the Atlanta Civic Center contributes more to the economy of the City of Atlanta than the World Congress Center, and in the future, it will provide services without being subsidized by tax dollars.⁵²

However, this possibility may never be realized because of a number of obstacles. One of the obstacles it has to overcome is the World Congress Center, which has an aura of newness, and a group of aggressive salesmen to entice patrons to their center. The World Congress Center presents an acute competition to the Atlanta Civic Center.

However, the future of the Civic Center is promising. A recent Atlanta Economic Development Corporation Study indicates that, "there is a potential market demand for a Civic Center Hotel and 65 percent of persons interviewed reacted favorably to the Civic Center as a meeting or exhibit site."⁵³ The study by AEDC also reveals that in the past twelve months in excess of 250,000 persons had visited the Civic Center, and

⁵²Department of Cultural Affairs, Atlanta Civic Center Six Month Report 1980.

⁵³A Feasibility Study for the Atlanta Civil Center, Atlanta Economic Development Corporation, Atlanta, 1980, p. 10.

most of them were convention delegates.⁵⁴ Based upon the above study, the Atlanta Chamber of Commerce estimated that "each delegate to the Civic Center approximately spends \$90-\$100 per day on lodging, transportation, meals and other services."⁵⁵ One could conclude from the above that if a Civic Center Hotel is set up, at least 75 percent of the money spent per day would help increase the revenue of the Civic Center.

The Department of Cultural Affairs strongly believes that the Civic Center could be accounted for under an enterprise fund. This statement is partially confirmed by both the Human Resources Committee when they state that:

... austere 1980 budget which realigned the organizational structure to some extent, has placed ... in a more business-like posture.⁵⁶

(Table 5 shows the monthly report for June 1980 as it compares with that of 1979.)

This business-like posture of the Civic Center, in fact, shows that the revenue for the first six months of 1980 was \$375,008 as compared to \$248,570 for the same period in 1979. This is an increase of \$126,438 or 51 percent. The overall percentage of total revenue generated to total operating cost for the first six months of 1980 was approximately 94 percent. This indicates that there was a 6 percent profit in

⁵⁴Ibid., p. 11.

⁵⁵Ibid.

⁵⁶Department of Cultural Affairs, Atlanta Civic Center Six Month Report 1980.

TABLE 5

DEPARTMENT OF CULTURAL AFFAIRS FACILITY
MANAGEMENT/CIVIC CENTER MONTHLY
REPORT FOR JUNE 1980

	Current Month	Same month Last year	1980	1979
Revenue:	<u>\$80,572.23</u>	<u>\$25,212.93</u>	<u>\$375,422.00</u>	<u>\$248,570</u>
Rent	24,225.00	12,082.48	206,422.00	182,512
Concessions	15,000.00	0	15,000.00	13,448
Telephones	287.01	144.94	595.07	557
Electrical	123.50	36.70	1,448.08	1,244
Parking	40,644.72	12,948.81	149,475.29	48,906
Other	292.00	0	2,067.65	1,900
Operating Cost:				
% of Revenue to operating cost:	121	35	94	58

Source: Atlanta Civic Center Six Month Report (Atlanta, Georgia).

that particular year.

From the foregoing analysis, it seems that the City of Atlanta should consider establishing an enterprise fund for the Civic Center. Atlanta's status as a convention city together with the newly-completed international airport has the environment to attract new businesses. This, in turn, should give rise to an increased use of the Civic Center that will ultimately lead to extra profit or breakeven.

Furthermore, it is the belief of this writer that an enterprise fund would enable administrators in the City of Atlanta to effectively and efficiently make accurate decisions

as to whether the Civic Center is operating at full capacity with increased revenue and less operating cost.

VII. THE ANALYSIS

As was previously mentioned in the methodology, Likert Scale was used to analyze the result of administrators' perceptions on the subject matter. This statistical concept has a number of advantages. First, it is efficient in the use of space. Second, respondents could find it easier to complete a set of questions presented to them and could also provide a basis for comparing responses to similar questions. However, there are certain dangers inherent in using Likert Scale. Its advantages could mislead one to include source items that might present a different format. For example, one could be tempted to structure a question so as to use the responses being called for in the matrix when a different, more idiosyncratic, set of responses could be more appropriate. Also, this system or pattern could foster a response set among some respondents (i.e., they may develop the pattern of agreeing with all the statements). This happens when a set of statements start with a particular orientation.

However, the degree of administrators' perceptions of the City of Atlanta with respect to the creation of special revenue funds and enterprise fund is given in table 6.

The initial analysis of the internal characteristics of the table consists of displaying the variables of each

TABLE 6

DEPARTMENT OF PARKS AND RECREATION, THE LIBRARY,
THE CIVIC CENTER, CULTURAL AFFAIRS

Beside each of the statement or question presented below. please indicate whether you Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD), or are Undecided (U).

	(SA)	(A)	(D)	(SD)	(U)
1. Do you find a need for the creation of a special revenue fund for parks and recreation, library, cultural affairs	5x18 =90 75%	4x2 =8 8%	3x2 =6 8%		1x2 =2 8%
2. The City of Atlanta needs the creation of a special revenue fund for the Civic Center			3x5 =15 21%	2x3 =6 13%	1x16 =16 21%
3. The City of Atlanta needs the creation of an enterprise fund for the Civic Center		4x19 =76 79%			1x5 =5 21%
4. A special revenue fund could result in the build up of funds for some departments while others of equal importance could suffer	5x2 =10 8%	4x9 =36 38%		2x6 =12 25%	1x7 =7 29%
5. A special revenue fund can help top management to identify funds generated by each department more easily than the present system			2x7 =14 29%		1x17 =17 71%
6. An enterprise fund can induce employees to generate more revenue	5x20 =100 83%	4x2 =8 8%			1x2 =2 8%
7. A general fund could serve the same purpose and function as a special revenue fund will serve	5x20 =100 83%		3x1 =3 4%		1x3 =3 10%
8. A special revenue fund can hinder sound financial planning and complicate the accounting system		4x2 =8 8%	3x2 =6 8%	2x17 =34 71%	1x3 =3 13%
9. An enterprise fund can hinder sound financial planning and complicate the accounting system				2x24 =48 100%	
10. The creation of a special revenue fund will complicate the budgetary process in the City of Atlanta		4x1 =4 4%		3x20 =40 83%	1x3 =3 13%

TABLE 6 (continued)

Beside each of the statement or question presented below, please indicate whether you Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD), or are Undecided (U).

	(SA)	(A)	(D)	(SD)	(U)
11. The Atlanta Civic Center can generate enough revenue to be accounted for under the enterprise fund	5x1 =5 4%	4x19 =76 79%			
12. Do you think a special revenue fund will create inflexibility in the use of revenue by the City		4x2 =8 8%	3x4 =12 17%	2x14 =28 58%	1x4 =4 17%
13. An enterprise fund will enable administrators to see the true net worth of an establishment	5x15 =75 63%	4x5 =20 21%	3x1 =3 4%		1x3 =3 13%
14. A special revenue fund can help budget analyst to determine departments with high potential	5x20 =100 83%	4x2 =8 8%			1x2 =2 8%
15. Does the City of Atlanta Charter vs. Ordinance permit the creation of special or enterprise funds for revenue-producing activities.....	5x22 =110 92%				1x2 =2 8%
16. The creation of a special revenue fund will complicate the budgetary process in the City of Atlanta		4x1 =4 4%		2x20 =40 83%	1x3 =3 13%
17. The creation of an enterprise fund for the Civic Center will complicate the budgetary process in the City of Atlanta			3x2 =6 8%	2x21 =42 88%	1x1 =1 4%
18. The creation of a special revenue fund for revenue-producing activities makes it easier for accountants to allocate indirect cost to the various departments		4x1 =4 4%		2x2 =4 8%	1x21 =21 88%
19. The Atlanta Civic Center can generate enough revenue to be accounted for under the enterprise fund	5x1 =5 4%	4x19 =76 79%			1x4 =4 17%
20. The general fund should subsidize the special revenue fund	5x20 =100 83%	4x1 =4 4%			1x3 =3 13%

respondent. Using five independent variables (i.e., Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (DS), and Undecided (U) scores of 5 to 1 were assigned taking the direction into account (i.e., 5 SA, 4 A, etc.).

A total of 25 questionnaires were distributed to administrators at various levels. Of these, 96 percent responded to the questions. These responses were favorable to the study as the analysis will further demonstrate. However, these responses were collapsed into one, and selected variables or questions were analyzed or briefly discussed.

As indicated before, a glance at table 6 shows that most of the respondents favored the establishment of the special revenue and enterprise funds. Specifically, with regard to variable one in the table of analysis, 75 percent of those interviewed strongly agreed, 8 percent agreed, 8 percent disagreed, and 8 percent undecided. Those who favored (i.e., 75 percent and 8 percent) the establishment of a special revenue fund are probably not aware of some of the problems associated with this fund. However, their agreement could be based on the following reasons: 1. A special revenue would lead to quick access to money. In other words, the creation of such a fund could enable departments or bureaus to obtain money without going through bureaucratic red tape. Also, a department could receive funds on a daily basis if it so desired; 2. revenue generated from a facility could be used to purchase and/or maintain the facility that generated the revenue. Added to the above, employees motivation could be increased. This is

because, if an employee knows that a certain percentage of the amount of money generated by his unit would go towards the purchase of equipment, supplies, or other miscellaneous expenses in his/her unit, could in effect, make the employee perform efficiently.

On the other hand, only 8 percent of the administrators interviewed disagreed with the establishment of a special revenue fund. These administrators probably are concerned with the political, accounting and financial problems that might arise out of this fund. The administrators who disagreed may have the opinion that some politicians or council members (whether they are from poor, middle or rich district) would like certain facilities to be furnished and maintained in their districts. Again, their disagreement could be due to the fact that if a special revenue fund is established, it would improve facility or facilities in certain districts, neighborhoods, or communities. If this is the case, it would obviously present a problem. For example, if a facility is located in a poor neighborhood, it would suffer because the amount of revenue it generates will be less, while a similar facility located in a rich or middle class neighborhood or community would generate tremendous revenue. In essence, the administrators who disagreed with the establishment of this fund are in favor of a general fund.

Furthermore, the disagreement could be due to an additional administrative cost (such as computer) that they feel would be associated with the operation of a special revenue

fund. The administrators are probably concerned with the distribution of revenue to revenue producing agencies. That is, if a special revenue fund is established for revenue producing activities or agencies, the revenue derived by an activity or agency would be divided among several special revenue funds rather than lumped in one fund (General Fund). This could result in the limitation of overall available investment money by the city.⁵⁷

Also, the administrators who disagreed with the creation of a special revenue fund (although they are small in number compared to those who agreed) are probably concerned with the problems normally associated with this fund. These administrators are probably in line with the Municipal Finance Officers Association which, as we have previously indicated on page 23, states that:

... the creation of special revenue funds is opposed because it hinders sound financial planning, unduly complicates the accounting system, and causes confusion in financial reporting.

Again, the administrators might probably be of the opinion similar to those of Morey and Hackett who stated that the creation of special revenue funds on the whole, was not to be commended. The reason probably is the notion that such fund would lead to the build up of money for particular activities while others of equal importance may be suffering because of lack of resources.

⁵⁷ This is further discussed in the conclusion section of this paper.

Furthermore, the administrators disagreement could be in line with Mendonsa who stated that a special revenue fund would create inflexibility in the use of revenue which a city generate. In effect, designated revenue could lead to low priority needs being over-financed while high priority needs are underfinanced.

Those who were undecided probably are not fully aware of the concept of special revenue fund. On the other hand, they may prefer a special revenue account rather than a special revenue fund.

Table 6 also indicates that 79 percent of the administrators favored the creation of an enterprise fund for the Civic Center while 21 percent interviewed are undecided. Those who favored the creation of an enterprise fund for the Civic Center are probably aware of the amount of money this unit could generate as compared to its operating cost. This is compatible with the viewpoint of the Commissioner of Cultural Affairs (as indicated on pages 47 and 48), when she states that in the future the Atlanta Civic Center could provide services without being subsidized by the tax dollars of the citizens.

Again, page 48 also revealed that the revenue for the first six months of 1980 as compared to 1979 was increased by 51 percent. This, according to the Human Resources Committee, "has placed the Civic Center in a more business-like posture."⁵⁸ Furthermore, it was reported on page 48 that the

⁵⁸Op. Cit., p. 46.

overall percentage of total revenue generated compared to the total operating cost for the first six months of 1980 was approximately 94 percent (favorable). The administrators (79 percent) who favored the creation of an enterprise fund, probably must have analyzed the above viewpoints of the Commissioner of Cultural Affairs as well as that of the Human Resources Committee. These administrators are probably convinced that, based upon the revenue the Civic Center generated for a limited period of time, the viewpoints of the Commissioner of Cultural Affairs, and that of the Human Resources Committee, must have concluded that it is necessary to establish an enterprise fund. Again, they must have probably understood the accounting system of a private concern, which takes into consideration the depreciation of plant assets in evaluating the performance of an establishment.

Added to the above, these administrators in favor of an enterprise fund might be aware of the basic concept of 'responsibility accounting.' By responsibility accounting is meant that the performance of each manager or administrator in charge of a department or bureau can be judged by how well he/she manages the items directly under his/her control.⁵⁹ Explicitly, in order to judge a manager's or administrator's performance, the cost of his/her operation (expenses) and the revenue of his/her section must be carefully scrutinized and

⁵⁹R. H. Garrison, Managerial Accounting (Dallas: Business Publications, Inc., 1979), p. 256.

classified according to the activity. In doing this, each level of management (i.e., division) is charged with those costs under the care of the manager or the administrator and he/she is held responsible for the different variations between the budgeted goals and the actual results. In effect, 'responsibility accounting' personalized the accounting system by looking at the cost from a personal control standpoint, rather than from an institutional standpoint.

The undecided (21 percent) respondents regarding the creation of special revenue or enterprise funds could possibly indicate that they are either uninterested in the creation of such funds or that they feel comfortable with the present system.

VIII. CONCLUSION AND RECOMMENDATIONS

The City of Atlanta has been using the most modern and recommended accounting practices; yet, this study has revealed that the creation of an enterprise fund for the Civic Center could help in the efficient operation of its activities. This fund can provide incentives to administrators in order to maximize the available revenue collections.

Under the analysis section of this paper, one of the probably negative points given by those who did not favor the establishment of a special revenue fund, was the cost of its implementation (e.g., computer cost). These administrators probably are not aware of the fact that the city is in the process of establishing a computerized accounting system that can manipulate the various types of special revenue funds. However, these administrators also gave some sound financial reasons for their disapproval of the establishment of a special revenue fund. Though these administrators are small in number compared to those who agreed, yet the probable reasons for their rejection of the establishment of a special revenue fund are better than those advanced by the advocates of the establishment of a special revenue fund. In fact, the viewpoint expressed by this minority is synonymous to those advanced by the authorities or scholars who reject the establishment of a special revenue fund. The study, therefore, revealed that the creation of a

special revenue fund for revenue producing activities or agencies in the City of Atlanta will likely be problem oriented.

Finally, this study has revealed that activities such as those performed at the Civic Center can generate sufficient revenue through users fees to meet a significant part of the cost. For this reason and others cited in the body of the paper, an enterprise fund could be the most appropriate accounting tool for recording the business transactions of the Civic Center. This fund offers the advantage of restructuring operations such that dollars spent are tied to dollars earned. In effect, an enterprise fund creates incentives to broaden the fee base and maximizes efficiencies in providing a service. Again, this fund accounts for monies with exactitude and therefore goes hand-in-hand with setting a fee schedule that will realistically reflect activity costs.

After a careful examination of the merits and demerits of the special revenue and enterprise funds, the writer is of the opinion that the establishment of an enterprise fund for the Civic Center will be beneficial to the City of Atlanta. On the other hand, it is the opinion of the writer that the establishment of a special revenue fund will create significant problems for the city. In view of this, the following recommendations are offered:

1. That the City of Atlanta should not establish a special revenue fund for revenue producing activities or agencies.
2. That an enterprise fund be created for the Atlanta Civic Center.

3. That the budgeting and accounting procedures, including entries and statements of a special revenue fund be in conformity with the recommendation of the Municipal Finance Officers Association.
4. That an investigation or audit of each fund be conducted on an annual basis. This should be carried out for control purposes.
5. That the city accountant, treasurer or controller prepare the relevant financial balance sheets needed to begin the operation of an enterprise fund.

APPENDIX A
CORRESPONDENCE FROM DIRECTOR, BUREAU OF LIBRARIES



MRS. ELLA GAINES YATES
DIRECTOR, BUREAU OF LIBRARIES

April 1, 1980

Councilman Morris Finley
Human Resources Committee
City Council
City Hall
Atlanta, Georgia 30303

Dear Councilman Finley:

The Library anticipates accelerated cost, in several areas, to run the new Central Library. We have looked at some means of slightly augmenting some accounts.

I will list areas on separate sheets to facilitate easier handling for approval or rejection.

Respectfully submitted,

Ella Yates
(Mrs.) Ella Gaines Yates

EGY/jlb

Enclosures

CC: HUMAN RESOURCES COMMITTEE
COMMISSIONER DAVIS
COUNCILMAN WILLIAMSON

ATLANTA PUBLIC LIBRARY

ADDITIONAL SOURCE OF REVENUE IGeneral Operating Supplies
Account #1210D051

The Library has always provided photocopying services for its public patrons. The contracts on these machines are handled through City Purchasing with an agreed upon sum being returned to the City from the revenue taken in. Could this revenue be applied to our General Operating Supply Account #1210D051? This is an area of accelerated operating expenses.

The Library presently provides all paper, ink, and toner for these machines from our general operating supply account with no reimbursement to offset costs. We have operated with 3 in the past facility. This will increase to 6 in the new building.

ATLANTA PUBLIC LIBRARY

ADDITIONAL SOURCE OF REVENUE II

General Operating Supplies
Account #1210D051

Our new computer catalogs have printout machines at Central and several branch installations. Patrons can make hard copy of listed data at ten cents per print. May we have permission from City Council to have this money added to our General Operating Supply Account #1210D051 for the purpose of providing additional paper to stock these machines?

ATLANTA PUBLIC LIBRARY

ADDITIONAL SOURCE OF REVENUE III

Books & Periodicals
Account #1210D100

In 1979 City Council passed a resolution to apply library fines and fees received to the Book Account to help offset inflated costs of materials.

Is this money to be added to our account each month or at the end of the year.

Please advise where we stand on this.

ATLANTA PUBLIC LIBRARY

ADDITIONAL SOURCE OF REVENUE IV

General Operating Supplies
Account #1210D051

The Library has printed a catalog of our film holdings over the years. With the installation of computer catalogs (each lists all holdings in the entire library system plus films) we discontinued the costly film catalogs. The Library film public is adamant; they still want a catalog for home and school use and are willing to pay for these catalogs.

The Board of Trustees has approved a fee of \$2.00 per catalog to help defray costs. Our new computer operation can generate a master copy and we can duplicate additional ones.

We herewith request from Council permission to charge \$2.00 per catalog printing with the funds being returned to the Library General Operating Supply Account #1210D051 to offset accelerated usage of paper for printing and binding.

APPENDIX B
QUESTIONNAIRE

Department of Parks and Recreation, the Library,
the Civic Center, cultural affairs

Beside each of the statement or question presented below, please indicate you Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD), or are Undecided (U).

(SA) (A) (D) (SD) (U)

1. Do you find a need for the creation of a special revenue fund for parks and recreation, library, cultural affairs
2. The City of Atlanta needs the creation of a special revenue fund for the Civic Center
3. The City of Atlanta needs the creation of an enterprise fund for the Civic Center
4. A special revenue fund could result in the build up of funds for some departments while others of equal importance could suffer
5. Can a special revenue fund help top management to identify funds generated by each department more easily than the present system
6. An enterprise fund can induce employees to generate more revenue
7. A general fund could serve the same purpose and function as a special fund will serve
8. A special revenue fund can hinder sound financial planning and complicate the accounting system.....
9. An enterprise fund can hinder sound financial planning and complicate the accounting system
10. The creation of a special revenue fund will complicate the budgetary process in the City of Atlanta

(SA) (A) (D) (SD) (U)

11. The Atlanta Civic Center can generate enough revenue to be accounted for under the enterprise fund.....
12. Do you think a special revenue fund will create inflexibility in the use of revenue by the City
13. An enterprise fund will enable administrators to see the true net worth of an establishment
14. A special revenue fund can help budget analyst to determine departments with high potential
15. Does the City of Atlanta Charter vs. Ordinance permit the creation of special or enterprise funds for revenue producing activities
16. The creation of a special revenue fund will complicate the budgetary process in the City of Atlanta
17. The creation of an enterprise fund for the Civic Center will complicate the budgetary process in the City of Atlanta
18. The creation of a special revenue fund for revenue producing activities makes it easier for accountants to allocate indirect cost to the various departments
19. The Atlanta Civic Center can generate enough revenue to be accounted for under the enterprise fund
20. The general fund should subsidize the special revenue fund

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